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February 23, 2001

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley *J. Tyler McCauley*
Auditor-Controller

SUBJECT: **Department of Health Services
Fiscal Year 1999-2000 Reengineering Savings**

On January 19, 1999, your Board instructed my office to report on the accuracy of the Department of Health Services' (DHS) reengineering database, and the projected and actual reengineering savings reported by DHS. In November 1999, we submitted our report on a sample of ideas for DHS' fiscal year (FY) 1998-99 savings.

We have completed our review of a sample of DHS' reported reengineering savings for FY 1999-2000. The following are details of our review of DHS' savings and reengineering database.

Review of FY 1999-2000 Savings

In June 2000, DHS reported to your Board that the Department had saved approximately \$73.6 million for FY 1999-2000, compared to a target of \$70.9. However, DHS subsequently found the reported pharmacy savings were overstated. DHS revised their reported FY 1999-2000 savings to approximately \$69.6 million.

We reviewed a sample of 37 ideas with reported savings of approximately \$30 million. We found that DHS' total reported savings for the ideas we reviewed was reasonable. However, we also found that the audited savings for some individual ideas were higher or lower than reported. For example, Harbor/UCLA understated the savings from the 340B drug program by approximately \$1 million, while savings from lab and plant management were overstated by approximately \$300,000 each.

We also noted that some reported savings might have been used to meet other needs. Specifically, LAC+USC Medical Center reported \$2 million in savings in Medical Records salaries and employee benefits. However, our comparison of Medical Records salaries, employee benefits and overtime from the FY 1997-98 base year (adjusted for cost of living increases) to FY 1999-2000 shows a decrease of only \$1 million. LAC+USC indicated that the difference is due to an increase in overtime needed to meet accreditation standards, revenue audits and other needs in FY 1999-2000.

In addition, we found that approximately \$1 million in FY 1999-2000 savings were the result of one-time events (e.g., expected enabler expenditures that were not made, etc.). Because these savings may not recur in future years, DHS will have to generate additional savings from existing ideas and/or new ideas to replace the one-time savings. The issue of one-time savings was also noted in our prior report on DHS' FY 1998-99 reengineering savings.

Finally, it should be noted that approximately \$7.6 million in reported savings were for ideas that did not have targets for FY 1999-2000. For example, idea 4241 at King/Drew Medical Center (changes in outpatient financial screening) was a Category 5 (Pipeline) idea and was not expected to be implemented until FY 2000-01 (or later). Because the idea was implemented a year early, the savings were included in the reported FY 1999-2000 savings, but DHS' \$70.9 million target did not include the expected savings from this idea. If the targets for these ideas were included in the FY 1999-2000 total reengineering savings target, the target would increase from \$70.9 million to approximately \$78.5 million. DHS noted that the \$7.6 million in savings from ideas that did not have targets for FY 1999-2000 offset lower savings from other ideas that did not meet their targets.

Reengineering Database

As indicated in our April 1999 report, DHS has set up a centralized database to monitor reengineering savings. Our review indicates that the database continues to provide an appropriate tool for DHS to monitor progress toward the savings targets. The database accurately reflects the reengineering ideas, the savings targets/projections and the facility reported savings amounts.

In accordance with your Board's instructions, we will continue to review DHS' reported reengineering savings. We will report back to your Board on DHS' FY 2000-01 savings, including the additional reengineering savings included in the Department's Strategic Plan.

If you have any questions, please call me or have your staff call Pat McMahon at (213) 974-0301.

JTM:PTM:js

c: David Janssen, Chief Administrative Officer
Mark Finucane, Director, DHS
Violet Varona-Lukens, Executive Officer
Audit Committee (6)